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07-27-07

11:58 AM

**BEFORE THE
PUBLIC UTILITIES COMMISSION AND THE
CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive
Framework and to Examine the Integration of
Greenhouse Gas Emissions Standards into
Procurement Policies.

CPUC Rulemaking 06-04-009
CEC Docket 07-OIIP-01

**SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
PREHEARING CONFERENCE STATEMENT**

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: npedersen@hanmor.com

Attorney for the **SOUTHERN CALIFORNIA
PUBLIC POWER AUTHORITY**

Dated: July 26, 2007

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In accordance with the Administrative Law Judge's Ruling ("Ruling") issued on July 12, 2007, the Southern California Public Power Authority ("SCPPA") respectfully submits this statement for the prehearing conference that is scheduled for August 1, 2007 in this proceeding.

SCPPA generally finds merit in the policies recommended by the staff of the California Public Utilities Commission ("Commission") in the July 12, 2007 Preliminary Staff Recommendations for Treatment of Natural Gas Sector Greenhouse Gas Emissions ("Preliminary Staff Recommendations"). First, the staff recommends that if a cap-and-trade regime is established to meet the greenhouse gas ("GHG") reduction goals of Assembly Bill ("AB") 32, the natural gas sector should be a capped sector. This proposition is certainly true. As pointed out in the Preliminary Staff Recommendations, the natural gas sector (excluding natural gas used for electricity generation) constitutes approximately 14 percent of California's GHG emissions. Clearly, the natural gas sector must be a capped sector in order to achieve Assembly Bill ("AB") 32 goals.

Second, the staff recommends that the scope of emissions that would be attributed to the natural gas sector should include both emissions from end-users and emissions from natural gas infrastructure. However, the end-use emissions that would be attributed to the natural gas sector would *exclude* (1) emissions related to the production of electricity, which would be included within the electricity sector rather than the natural gas sector, (2) emissions by large non-electric generation industrial customers (including enhanced oil recovery) which are treated by the California Air Resources Board (“CARB”) as individually regulated point sources or as parts of other sectors, and (3) emissions from transportation-related usage. Thus, in the staff’s view, all natural gas usage that is not otherwise reached by GHG emission regulation would be included within the natural gas sector. Staff’s recommended approach is consistent with the Legislature’s determination in AB 32 that California’s GHG reduction effort shall reach the entire California economy without the burden of GHG reduction falling on some sectors but not others.

In addition to assuming that CARB will “want to regulate as many sectors as possible,” staff assumes that there will be a need to regulate sectors “in a parallel manner.” Preliminary Staff Recommendations at 13. The Staff says that it “is mindful that differences in treatments of sectors can result in unintended consequences....” *Ibid.* SCPPA agrees. Particularly, it would be inequitable to burden some sectors disproportionately to others. For example, it would be inequitable to insist upon a greater percentage emission reduction from the electric sector than the natural gas sector. Proportional contributions should be expected from the gas and electric sectors.

Further, if a cap-and-trade mechanism were to be adopted and allowances were to be allocated administratively, the basis for the administrative allocation of allowances within the electric and natural gas sectors should be consistent. In its June 30, 2007 recommendations to

CARB, the Market Advisory Committee (“MAC”) recognized that allocating allowances administratively to electric load-serving entities (“LSEs”), including publicly owned utilities, may be appropriate:

If allowances are allocated for free, in some cases the impact on consumer prices could be smaller than in the case of auctioning (regardless of whether the first-seller or load-based approach is adopted). Using an allowance has an opportunity cost regardless whether the allowance was purchased or given away. However, in California utility regulators are likely to prevent LSEs, whose rates they regulate, from passing allowance opportunity costs along to consumers in cases where the LSE receives allowances for free. This is likely to be particularly true of the municipal utilities, which are effectively owned by consumers. Thus, if allowances are freely allocated to LSEs and the LSEs are prevented from passing along the opportunity costs associated with the use of free allowances, the impact on consumer prices will be less than under a system that auctions allowances or one that freely allocates allowances to generators.

Recommendations of the MAC to the CARB, June 30, 2007. In the event of an administrative allocation of allowances to gas utilities as well as electric utilities, the Preliminary Staff Recommendation recognizes that there is an issue about “the basis on which [administratively allocated allowances] would be allocated (i.e., historical emissions, usage, population, etc.).” Preliminary Staff Recommendation at 14. In allocating allowances administratively, the Commission should not use measures for either the gas or electric sectors such as population that are not tied directly to historic emissions levels. If there is an administrative allocation of allowances to gas utilities as well as electric utilities, the administrative allocation of allowances, at least at the outset, should be based predominantly if not entirely on historical emissions in order to mitigate the economic harm that may otherwise occur.

SCPPA appreciates this opportunity to express its preliminary views on some of the important issues that will be considered in this proceeding. SCPPA looks forward to assisting the Commission as it pursues the issues discussed in the Preliminary Staff Recommendation.

Respectfully submitted,

/s/ Norman A. Pedersen

Norman A. Pedersen, Esq.
HANNA AND MORTON LLP
444 South Flower Street, Suite 1500
Los Angeles, California 90071-2916
Telephone: (213) 430-2510
Facsimile: (213) 623-3379
E-mail: npedersen@hanmor.com

Attorney for the **SOUTHERN CALIFORNIA
PUBLIC POWER AUTHORITY**

Dated: July 26, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY PREHEARING CONFERENCE STATEMENT** on the service list for R.06-04-009 by serving a copy to each party by electronic mail, or by mailing a properly addressed copy by first-class mail with postage prepaid to each party unable to accept service by electronic mail.

Executed on July 26, 2007, at Los Angeles, California.

/s/ Sylvia Cantos

Sylvia Cantos

R.06-04-009 E-MAIL SERVICE LIST

steven.schleimer@barclayscapital.com
steven.huhman@morganstanley.com
rick_noger@praxair.com
keith.mccrea@sablau.com
ajkatz@mwe.com
ckrupka@mwe.com
lisa.decker@constellation.com
kevin.boudreaux@calpine.com
trdill@westernhubs.com
ej_wright@oxy.com
pseby@mckennalong.com
todil@mckennalong.com
jenine.schenk@apses.com
jbw@slwplc.com
kelly.barr@srpnet.com
smichel@westernresources.org
roger.montgomery@swgas.com
ron.deaton@ladwp.com
snewsom@semprautilities.com
dhuard@manatt.com
curtis.kebler@gs.com
dehling@kling.com
gregory.koiser@constellation.com
npedersen@hanmor.com
mmazur@3phases.com
tiffany.rau@bp.com
klatt@energyattorney.com
maureen@lennonassociates.com
rhelgeson@scppa.org
douglass@energyattorney.com
pssed@adelphia.net
akbar.jazayeri@sce.com
annette.gilliam@sce.com
cathy.karlstad@sce.com
Laura.Genao@sce.com
rkmoore@gswater.com
dwood8@cox.net
amsmith@sempra.com
atrial@sempra.com
dhecht@sempratrading.com
daking@sempra.com
svongdeuane@semprasolutions.com
troberts@sempra.com
liddell@energyattorney.com
jkloberdanz@semprautilities.com
marcie.milner@shell.com
rwintrop@pilotpowergroup.com

tdarton@pilotpowergroup.com
lschavrien@semprautilities.com
GloriaB@anzaelectric.org
llund@commerceenergy.com
thunt@cecmail.org
jeanne.sole@sfgov.org
john.hughes@sce.com
llorenz@semprautilities.com
marcel@turn.org
nsuetake@turn.org
dil@cpuc.ca.gov
fjs@cpuc.ca.gov
achang@nrdc.org
ek@a-klaw.com
mpa@a-klaw.com
sls@a-klaw.com
bill.chen@constellation.com
bk7@pge.com
epoole@adplaw.com
agrimaldi@mckennalong.com
bcragg@goodinmacbride.com
jsqueri@gmssr.com
jarmstrong@gmssr.com
kbowen@winston.com
lcottle@winston.com
sbeatty@cwclaw.com
jkarp@winston.com
jeffgray@dwt.com
cjw5@pge.com
ssmyers@att.net
lars@resource-solutions.org
aweller@sel.com
jchamberlin@strategicenergy.com
kerry.hatlevik@mirant.com
kowalewskia@calpine.com
wbooth@booth-law.com
hoerner@redefiningprogress.org
janill.richards@doj.ca.gov
cchen@ucsusa.org
gmorris@emf.net
tomb@crossborderenergy.com
bmcc@mccarthy-law.com
sberlin@mccarthy-law.com
anginc@goldrush.com
joyw@mid.org

jjensen@kirkwood.com
mary.lynch@constellation.com
lrdevanna-
rf@cleanenergysystems.com
abb@eslawfirm.com

mclaughlin@braunlegal.com
glw@eslawfirm.com
jluckhardt@downeybrand.com
jdh@eslawfirm.com
vwelch@environmentaldefense.org
www@eslawfirm.com

westgas@aol.com
scohn@smud.org
atrowbridge@daycartermurphy.com
dansvec@hdo.net
notice@psrec.coop
deb@a-klaw.com
cynthia.schultz@pacificorp.com
kyle.l.davis@pacificorp.com
ryan.flynn@pacificorp.com

carter@ieta.org
jason.dubchak@niskags.com
bjones@mjb Bradley.com
kcolburn@symbioticstrategies.com
rapcowart@aol.com
Kathryn.Wig@nrgenergy.com
sasteriadis@apx.com
george.hopley@barcap.com
ez@pointcarbon.com
burtraw@rff.org
vb@pointcarbon.com
kyle_boudreaux@fpl.com
andrew.bradford@constellation.com
gbarch@knowledgeinenergy.com
ralph.dennis@constellation.com
smindel@knowledgeinenergy.com
brabe@umich.edu
cswoolums@midamerican.com
bpotts@foley.com
james.keating@bp.com
jimross@r-c-s-inc.com
tcarlson@reliant.com
ghinners@reliant.com
julie.martin@bp.com
echiang@elementmarkets.com
nenbar@energy-insights.com
nlenssen@energy-insights.com
bbaker@summitblue.com
kjsimonsen@ems-ca.com
plusk@wecc.biz
Sandra.ely@state.nm.us
bmcquown@reliant.com
dbrooks@nevp.com

anita.hart@swgas.com
randy.sable@swgas.com
bill.schrand@swgas.com
jj.prucnal@swgas.com
meridith.strand@swgas.com
ckmitchell1@sbcglobal.net
chilen@sppc.com
emello@sppc.com
tdillard@sierrapacific.com
dsoyars@sppc.com
fluchetti@ndep.nv.gov
leilani.johnson@ladwp.com
randy.howard@ladwp.com
robert.pettinato@ladwp.com
hyao@semprautilities.com
rprince@semprautilities.com
rkeen@manatt.com
nwhang@manatt.com
derek@climateregistry.org
harveyederpspc.org@hotmail.com
sendo@ci.pasadena.ca.us
slins@ci.glendale.ca.us
THAMILTON5@CHARTER.NET
bjeider@ci.burbank.ca.us
roger.pelote@williams.com
aimee.branes@ecosecurities.com
case.admin@sce.com
tim.hemig@nrgenergy.com
bjl@bry.com
aldyn.hoekstra@paceglobal.com
ygross@sempraglobal.com
jlaun@apogee.net
kмкиener@fox.net
scottanders@sandiego.edu
andrew.mcallister@energycenter.org
jack.burke@energycenter.org
jennifer.porter@energycenter.org
sephra.ninow@energycenter.org
jleslie@luce.com
ofoote@hkcf-law.com
ekgrubaug@iid.com
pepper@cleanpowermarkets.com
gsmith@adamsbroadwell.com
mdjoseph@adamsbroadwell.com
diane_fellman@fpl.com
hayley@turn.org
freedman@turn.org
mflorio@turn.org
Dan.adler@calcef.org
mhyams@swater.org

tburke@sewater.org
norman.furuta@navy.mil
amber@ethree.com
annabelle.malins@fco.gov.uk
dwang@nrdc.org
ewanless@nrdc.org
filings@a-klaw.com
nes@a-klaw.com
obystrom@cera.com
sdhilton@stoel.com
scarter@nrdc.org
abonds@thelen.com
cbasket@enernoc.com
colin.petheram@att.com
jwmctarnaghan@duanemorris.com
kfox@wsgr.com
kkhoja@thelenreid.com
cem@newsdata.com
hgolub@nixonpeabody.com
jscancarelli@flk.com
jwiedman@goodinmacbride.com
mmattes@nossaman.com
jen@cnt.org
lisa_weinzimer@platts.com
steven@moss.net
sellis@fypower.org
arno@recurrentenergy.com
ELL5@pge.com
gx12@pge.com
jxa2@pge.com
JDF1@PGE.COM
sscb@pge.com
svs6@pge.com
S1L7@pge.com
vjw3@pge.com
farrokh.albuyeh@oati.net
greg.blue@sbcglobal.net
dtibbs@aes4u.com
beth@beth411.com
jhahn@covantaenergy.com
andy.vanhorn@vhcenergy.com
info@calseia.org
Joe.paul@dynegy.com
monica.schwebs@bingham.com
phansch@mofo.com
josephhenri@hotmail.com
pthompson@summitblue.com
dietrichlaw2@earthlink.net
Betty.Seto@kema.com
JerryL@abag.ca.gov

jody_london_consulting@earthlink.net
steve@schiller.com
mrw@mrwassoc.com
rschmidt@bartlewells.com
adamb@greenlining.org
clyde.murley@comcast.net
brenda.lemay@horizonwind.com
carla.peterman@gmail.com
elvine@lbl.gov
rhwisner@lbl.gov
C_Marnay@1b1.gov
philm@scdenergy.com
rita@ritanortonconsulting.com
cpechman@powereconomics.com
kswain@powereconomics.com
emahlon@ecoact.org
richards@mid.org
chrism@mid.org
rogerv@mid.org
fwmonier@tid.org
brbarkovich@earthlink.net
johnrredding@earthlink.net
clark.bernier@rlw.com
rmccann@umich.edu
cmkehrein@ems-ca.com
e-recipient@caiso.com
groesenblum@caiso.com

rsmutny-jones@caiso.com
saeed.farrokhpay@ferc.gov
david@branchcomb.com
kdusel@navigantconsulting.com
lpark@navigantconsulting.com
davidreynolds@ncpa.com
scott.tomashefsky@ncpa.com
ewolfe@resero.com
Audra.Hartmann@Dynergy.com
curt.barry@iwpnews.com
dave@ppallc.com

pstoner@lgc.org
rachel@ceert.org
wtasat@arb.ca.gov
steven@iepa.com
etiedemann@kmtg.com
lmh@eslawfirm.com
obarto@smud.org
bbeebe@smud.org
bpurewal@water.ca.gov
dmacmll@water.ca.gov

kmills@cbbf.com
karen@klindh.com
ehadley@reupower.com
Denise_Hill@transalta.com
sas@a-klaw.com
egw@a-klaw.com
akelly@climatetrust.org
alan.comnes@nrgenergy.com
kyle.silon@ecosecurities.com
californiadockets@pacificorp.com
Philip.H.Carver@state.or.us
samuel.r.sadler@state.or.us
lisa.c.schwartz@state.or.us
cbreidenich@yahoo.com
jesus.arredondo@nrgenergy.com
karen.mcdonald@powerex.com
loe@cpuc.ca.gov
agc@cpuc.ca.gov
aeg@cpuc.ca.gov
cft@cpuc.ca.gov
tam@cpuc.ca.gov
dsh@cpuc.ca.gov
edm@cpuc.ca.gov
cpe@cpuc.ca.gov
hym@cpuc.ca.gov
jm3@cpuc.ca.gov
jbf@cpuc.ca.gov
jst@cpuc.ca.gov
jtp@cpuc.ca.gov
jol@cpuc.ca.gov
jci@cpuc.ca.gov
jf2@cpuc.ca.gov
krd@cpuc.ca.gov
lrm@cpuc.ca.gov
mjd@cpuc.ca.gov
meg@cpuc.ca.gov
mts@cpuc.ca.gov
ner@cpuc.ca.gov
pw1@cpuc.ca.gov
psp@cpuc.ca.gov
rmm@cpuc.ca.gov
smk@cpuc.ca.gov
sgm@cpuc.ca.gov
svn@cpuc.ca.gov
scr@cpuc.ca.gov
tcx@cpuc.ca.gov
zap@cpuc.ca.gov
ken.alex@doj.ca.gov
ken.alex@doj.ca.gov
jsanders@caiso.com

jgill@caiso.com

ppettingill@caiso.com

mscheibl@arb.ca.gov

gottstein@volcano.net

pburmich@arb.ca.gov

bblevins@energy.state.ca.us

deborah.slone@doj.ca.gov

dks@cpuc.ca.gov

kgriffin@energy.state.ca.us

ldecarlo@energy.state.ca.us

mgarcia@arb.ca.gov

pduvair@energy.state.ca.us

wsm@cpuc.ca.gov

aulmer@water.ca.gov

hurlock@water.ca.gov

hcronin@water.ca.gov